

# SMALL BUSINESS DEVELOPMENT CENTER



## Merchant Payment Processing





# The Michigan SBDC

The Michigan SBDC is funded through a cooperative agreement with the U.S. Small Business Administration (SBA), the Michigan Economic Development Corporation (MEDC) and matching funds from Local Network partners in each region. Because of this support, all our services are at no cost to your business.

**Michigan SBDC in Partnership with  
MIWorks!  
2950 College Ave.  
Escanaba, MI 49829**

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# Objectives



- Identify Pros and Cons
- Defining all Terms of Merchant Payment Processing
- Questions to ask the Processor.
- How to offset the cost.
- How do you find the right company for your needs?



# Customers ★ Services

## Definition of Customer Service?

### Meeting Customers Expectations.

- 92% of all restaurants accept credit and debit cards.
- 81% of restaurant and consumer spending is done with credit cards and debit cards (2013)

# Findings and Value of Electronic Payment Processing



- Alternative payment options improve customers ease of payment for services or product, increasing customer satisfaction.
- Most electronic transactions are in your account the next day without having to make a deposit yourself. This saves the business owner time.
- 99% of the time the funds are instantly guaranteed at time of transaction versus personal checks have no guarantee.
- Electronic payment lowers risk of theft to the small business with hands off transacting.



# Arguments Against Electronic Payment Processing

- The fees and other charges are confusing, which lead small business owners to distrust.
- There are good and not so good merchant payment processing companies. How do you weed through them?
- Some regions do not have bandwidth to support all types of merchant processing. Do you know what level your business has access to?
- Just one more thing for the small business owner to keep track of.



# Merchant Processing Fees Defined

## Discount Rate

Typically comprising the largest portion of your costs, the discount rate is basically a percentage charged on each transaction you process. It varies depending on the type of card and the type of transaction. It also includes interchange, which are fees that are set by the credit card networks, charged to credit card processors and paid to the card-issuing banks.

## Transaction Fees

A transaction fee is charged to process each and every transaction, whether it's approved or declined by the card-issuing bank. The fee is set according to the type of transaction; for example, swiped or keyed.

## PIN Debit Transaction Fees

A fixed transaction fee that only applies when you process debit cards that require the cardholder to enter their PIN (personal identification number).

## Address Verification Service Transaction Fee (AVS)

AVS is required on all Visa® and MasterCard® transactions and whenever the card is not physically present, requiring that the account information be keyed into the system. AVS checks that the address and zip code provided by the cardholder matches the information on file with the card issuer. This security feature is a first line of defense against credit card fraud.

# Merchant Processing Fees Defined (cont.)



- **ACH/Daily Batch Fee**
- A fee that is charged when you settle your daily transactions (also known as the batch) with your credit card processor. If you have no credit card transactions to settle on a particular day, you are not charged this fee.
- **Monthly Statement/Support/Service Fee**
- Credit card processors charge this fixed fee that goes by different names on a monthly basis. It remains the same regardless of the number of transactions you process and helps cover the cost of your statement and any customer support or service you may require.
- **Internet Gateway Fee**
- This fee, which applies only to merchants who use an internet payment gateway, is billed directly by the gateway provider. The provider may also charge an additional per-transaction fee in addition to any transaction fees charged by your merchant account provider.
- **Voice Authorization Fee**
- The voice authorization fee applies to merchants who use a telephone dial-up service for transaction authorization. A fee is charged for each call that is made. Voice authorization is a payment processing option that can be useful as a backup in case your terminal, software or Internet connection malfunctions.

# Merchant Processing Fees Defined (cont.)



- **Monthly Minimum Fee**
- Your merchant account agreement stipulates a minimum amount of transaction fees that your provider requires you to generate each month. If your monthly fees fall below this minimum, you still pay the same monthly minimum fee.
- **Transaction Fee**
- Merchants are charged this fee every time their processing system makes connection with the network. This also includes voice authorizations, attempted sales that are declined, voids, operator error and invalid card numbers.
- **Network Access Fee**
- Merchants are charged this fee every time their processing system makes a connection with the network. This also includes voice authorizations, attempted sales that are declined, voids, operator error and invalid card numbers.
- **PCI non-validation fee**
- A fee charged to merchants who do not return a PCI Compliance Validation Certificate, which can be obtained by completing and passing on an annual basis a Self-Assessment Questionnaire (SAQ) and/or Quarterly Network Scan (for merchants that electronically store cardholder information or whose application systems are connected to the Internet) according to the applicable business level as defined by PCI Security Standards Council.

# Merchant Processing Fees Defined (cont.)



- **Surcharge Fee/Partially-qualified Fees/Non-qualified Fees**
- Three different names for fees related to an additional discount fee that applies to certain types of cards. These typically include business, corporate, rewards and international cards.
- **Application/Setup Fee**
- Once more prevalent than it is now, this fee is a one-time, upfront charge for setting up your account.
- **Reprogramming Fee**
- This fee for reprogramming your existing equipment or software covers the time and effort involved on the part of your processor and terminal/software vendors.
- **Chargeback/Retrieval Fee**
- These fees kick in when a cardholder or issuing bank disputes a transaction. The merchant is given the opportunity to refute the dispute with a written response and documentation. The merchant account provider handles the dispute with the issuing bank and charges these fees to do so.

# Merchant Processing Fees Defined (cont.)



- **Annual Fee**
- The amount charged by the processor for your merchant account on an annual basis.
- **Cancellation or Termination Fee**
- If you cancel or terminate your merchant account before the date stipulated in your merchant account agreement, your provider will most likely charge a fee to help recover some of their loss. There is usually room for negotiation, however, especially in the event that you have unresolved problems or issues that the provider cannot or will not resolve. In any event, the fee should be a fixed dollar amount, not a variable fee. Check your merchant account agreement regarding how the cancellation/termination fee is calculated.
- **Hidden/Junk Fees**
- This category covers a variety of surprise and bogus fees that some merchant account providers charge. Included in this group of the extremely low “teaser” rates that escalate within months after the contract is signed. Beware of other conditions, including increases in your discount rate without prior notification, which may be buried in the fine print of your agreement. These so-called junk fees go by many names, including file fee, security fee, audit fee, conversion fee, over-limit fee, excessive transactions fees and bill back fees.

# Ask the Right Questions



Is there a cancellation or early termination fee?

Ideally you want a processor that won't charge for this, however if you must pay a fee for leaving it should be no more than \$200-\$400.

ASK IF THEY HAVE SUSPENSION WITHOUT FEES FOR SEASONAL INDUSTRIES.

Is interchange-plus pricing an option?

If the answer is no, go elsewhere. With interchange-plus pricing, you can see exactly what MasterCard or Visa charges (the interchange fee) plus what you're paying the processor.

# Ask the Right Questions (cont.)



What fees will I be charged aside from the cost of each transaction?

Processors may tack on annual or monthly fees, regulatory fees, compliance fees, and statement fees. Be sure to ask about this upfront. These fees should not be more than \$200 annually for brick and mortar merchants.

What customer support is available?

You are going to need help when a terminal malfunctions. Look for a processor that offers phone support 24 hours a day, 7 days a week.

# Ask the Right Questions (cont.)



Should you lease or by a terminal?

The terminal is where you swipe the card. Be careful on the cost to rent when normally you can purchase one for \$200-\$350. If you do buy chose a terminal that can be used by different processors, VeriFone or Hypercom brands.

What is the Average Processing Time for Funds?

Normally the next business day is the standard for merchant processors to make your deposits, but ask to be sure.

# Ask the Right Questions (cont.)



Ask if their Payment Systems PCI-Compliant

Believe it or not, PCI compliance is not federally mandated. In other words, merchant account providers are not legally obligated to follow security standards set forth by the credit card industry.

What Fraud Protection Services do You Offer?

With the new credit card liability rules taking effect in 2015 you want to reduce your exposure to credit card fraud as much as possible. Ask the merchant account provider how it protects sensitive financial data.

# Ask the Right Questions (cont.)

What is the Contract Length?

Often you want to go with a shorter contract length until you are comfortable with the providers services. Ask if they have shorter contracts to start.

Are there different rates or fees associated with different types of cards?

Some services charge different fees to process different card types as well as for different transaction amounts. Make sure you know exactly what you'll be paying to process each type of transaction

# Ask the Right Questions (cont.)

Do you charge “billbacks” or are all charges related to transactions billed in the same month?

It is not unusual for a payment processor to entice you with low rates. The catch: that low rate only applies to certain types of cards and not others.

You may find that many of the transactions (different type of card) did not qualify for the lower rate.

Do you charge a separate fee for your gateway?

It is pretty common for processors to charge a separate fee for their payment gateway, usually on a per-transaction basis. So, in addition to the standard transaction fee say 2.9% + \$0.30- you'll pay a gateway fee on top of that for each transactions.

# Ask the Right Questions (cont.)



Is there a monthly minimum processing requirement or fee?

Some processors charge a monthly minimum fee, which you'll pay if your monthly transactions volume is below a certain amount. This can be a big financial pain for businesses just getting up and running.

Is there a limit on how much I can process?

Many processors limit the amount you can process based on your initial approval with them. Have you swiped a card to pump gas and it only allows a \$50 limit?

# Ask the Right Questions (cont.)



How long will it take to set up?  
What is needed, i.e. wireless,  
phone line.

Make sure the merchant processing system is going to work with the services you have available. Older card processors needed a designated phone line. Newer versions are wireless or broadband.

Does it accept new payment Technologies?

Does the business have tech savvy customers? With all the new forms of electronic payment, ask to see if they are keeping up.

# How to Offset the Costs



- In total you can expect to pay between 2.7% and 3.5% of your sales in merchant card processing.
- First logical action would be to increase your pricing by 3.5%, most customers would not mind paying a few cents more.
- Your time is money too. What does it cost you in time to take your deposits to the bank, count the deposit, fill out the paperwork, maybe wait in line at the bank.



# Find a Match

- Google the merchant card company to find a rating. There are sites out there now dedicated to shopping for the right service at the right price.

<http://www.best10merchantservices.com/>

The screenshot shows a web browser displaying the TOP10BEST Merchant Services website. The page title is "Top 10 Best Credit Card Processing Companies". It features a table with columns for Company, Rates From, Features, User Rating, Our Score, and More Info. The companies listed are LEADERS, CAYAN, NorthAmerican Payment Systems, National Bankcard, and CHARGE.COM. Each entry includes a brief description of their services, a star rating, a user count, and a "GET QUOTE" button. To the right of the table, there are sections for "Latest Articles" and "Merchant Services Options for your Mobile Device". The browser's address bar shows the URL: "www.best10merchantservices.com/creditcardprocessing?kw=merchant%20processing%20fees&c=81595553560&t=search&p=&m=p&adpos=1t4".

Company	Rates From	Features	User Rating	Our Score	More Info
<b>LEADERS</b> Merchant Services	0.15%	✓ 98% approval rate ✓ Same day approval ✓ Superior customer service	★★★★★ Rate it (1166)	9.8	<a href="#">GET QUOTE</a> <a href="#">Full Review</a> (888) 372-7494
<b>CAYAN</b>	0.28%	✓ A+ BBB Rating ✓ No cancellation fee ✓ No long-term contracts	★★★★★ Rate it (1592)	9.5	<a href="#">GET QUOTE</a> <a href="#">Full Review</a> (888) 648-5529
<b>NorthAmerican Payment Systems</b>	0.19%	✓ Free EMV Equipment ✓ No cancellation/startup fees ✓ Quick set-up	★★★★★ Rate it (741)	8.9	<a href="#">GET QUOTE</a> <a href="#">Full Review</a> (888) 303-4035
<b>NB National Bankcard</b>	0.25%	✓ Funds deposited in 12 hrs ✓ \$0 annual fees ✓ Same day setup	★★★★★ Rate it (641)	8.4	<a href="#">GET QUOTE</a> <a href="#">Full Review</a> (888) 367-0792
<b>CHARGE.COM</b>	0.25%	✓ Accepts all major credit cards ✓ Free setup & instant approval ✓ Industry leading support	★★★★★ Rate it (696)	8.1	<a href="#">GET QUOTE</a> <a href="#">Full Review</a> 1-800-249-EE20



## Your Next Step

To find out more or to request  
counseling go to our website  
[www.SBDCMichigan.org](http://www.SBDCMichigan.org)

and fill out the information on the tab  
“Request for Counseling”. A counselor  
will be appointed to you.